Goal One: Protect the economic functions of the commodity futures and option markets.

Total FY 2001 Budget:	**$19,432,000**	**180 FTEs**
Total Increase Over FY 2000:	**$ 2,775,000**	**18 FTEs**

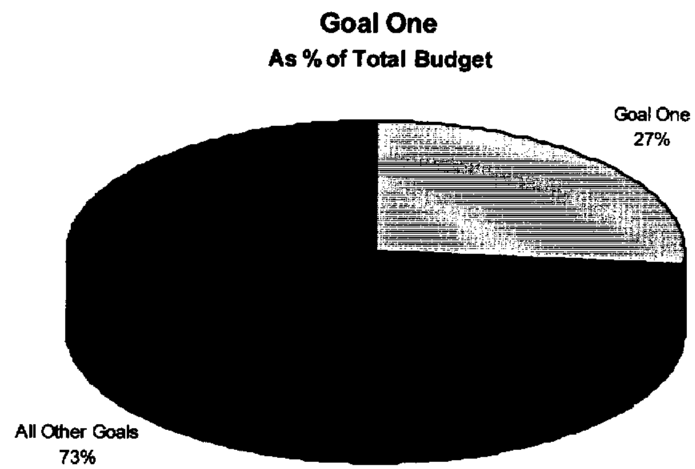

Figure 1: Goal One As Percentage of Total Budget

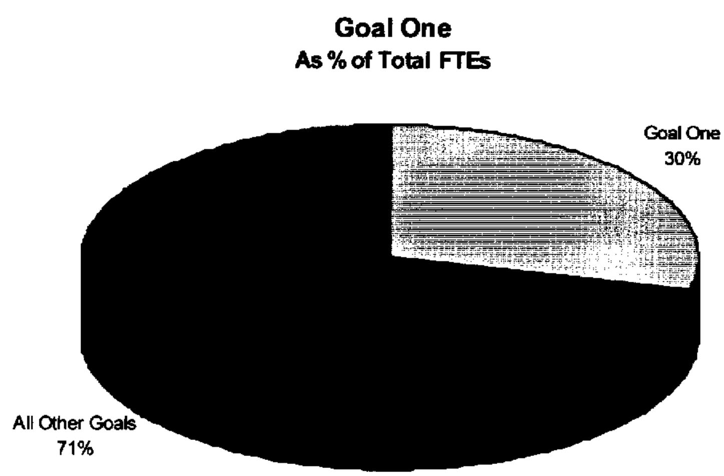

Figure 2: Goal One As Percentage of Total FTEs

Goal One: Protect the economic functions of the commodity futures and option markets.	
Outcome Objective	**Activity**
1. Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	1. Collect US futures and option large trader and exchange-generated reports for all actively trading contracts to support market surveillance, enforcement of speculative limits, dissemination of information to the public, and futures market studies and research by Commission staff and others. 2. Monitor the markets to detect and respond quickly to potentially disruptive situations such as market congestion and/or potential price manipulation. 3. Conduct timely review of contract market designation applications and changes to applications to determine if they are economically viable and do not pose a likelihood of disruption in the cash, futures, and option markets. 4. Identify possible manipulation and other abusive trading practices for investigation and possible enforcement or criminal action. 5. Investigate possible manipulation and other abusive trading practices. 6. Institute enforcement cases concerning manipulation and other abusive trading practices. 7. Sanction violators.
2. Oversee markets which can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.	1. Participate in the President's Working Group on Financial Markets to ensure coordination of information and efforts among US financial regulators. 2. Maintain a current understanding of market functions and developments through studies and research. 3. Provide materials and information on the functions and utility of the markets to the public through public Commission meetings, through public roundtables, advisory committee meetings, symposia, Commission input to US Department of Agriculture publications, routine reports on large trader activity, etc.

Goal One: FY 1999 Accomplishments by Program

Market Surveillance, Analysis & Research

The Market Surveillance program conducted daily surveillance of an estimated 157 active futures markets and 94 active option markets in order to foster markets that reflect fundamental supply and demand conditions rather than manipulative influences. The surveillance included collecting and analyzing approximately 8.1 million line items of data regarding large trader activity and approximately 13.6 thousand reports identifying the large traders. In the course of the year, economists prepared approximately 2,500 weekly surveillance reports and compiled 52 special market reports. The Commission was apprised of market developments at weekly market surveillance meetings.

APP Table
Activities 1.1.1 & 1.1.2

Heightened Surveillance and Special Analyses

- Copper. Market Surveillance staff continued to support the Commission's investigation of possible manipulation of the copper market in relation to the activities of Sumitomo Corporation. On May 20, 1999, the Commission filed a complaint charging Global Minerals (Global) and Metals and two of its officers with manipulating and cornering the copper market in late 1995. The complaint also named affiliates of Merrill Lynch Pierce Fenner and Smith with aiding and abetting Global in the copper manipulation.

- Energy. Crude oil and petroleum product prices fell sharply to 12-year lows in the fall of 1998 and then rebounded sharply during 1999. Rising global oil supplies, particularly large oil stocks and high levels of production during 1998, outstripped international consumption in the wake of the Asian financial crisis. NYMEX crude oil futures reached a low of $10.72 per barrel, down about 40 percent from the prior year. OPEC oil-producing countries, along with some major producers outside of OPEC, successfully reduced world oil production in 1999, while world economic growth revived causing, sharply higher oil prices. Surveillance staff carefully monitored expiring energy futures expirations during this period for indications of price manipulation.

- Cattle. Surveillance staff conducted intensified monitoring of several live cattle futures expirations, several of which were characterized by a concentrated holding of long futures positions, a wide premium of the futures price over the cash price of deliverable cattle at the beginning of the delivery period, and subsequent heavy futures deliveries. Staff made numerous contacts with large traders in these futures contracts and with exchange surveillance staff. The basis narrowed to normal levels as the last trading date approached and as large traders liquidated their positions.

- Cotton. The March 1999 cotton futures expiration was closely monitored by surveillance staff. At the start of the notice period, the settlement price of the March future rose sharply and the spread between the March 1999 and May 1999 futures went from a discount to a premium. A major cotton merchant had a large long position and was taking deliveries to compensate for a severe shortage of good quality cotton from certain growing regions. The market surveillance staffs of both the Commission and the NYCE monitored this future closely and were in regular communication with the long trader and other market participants. The strong price of the March future and the tightening of the March-May spread encouraged traders with short positions to make a very large number of deliveries. The long trader stopped notices, but also transacted exchanges of futures contracts for physicals (EFPs) and sold or rolled over a significant portion of its position. The March 1999 cotton future expired in a fairly orderly manner.

- _Financial Markets_. Staff closely monitored the volatile financial markets as the domestic equity indexes continued to rise at an extraordinary pace. US indexes reached successive record highs throughout the fiscal year. Yields-to-maturity on thirty-year US Treasury bonds reached record lows in August 1998, but generally rose throughout the rest of the fiscal year. The primary impetus behind the continued upsurge in equity values was a combination of relatively moderate economic growth, low inflation and interest rates, subdued wage pressures, an appreciating US dollar, and the expectation of improving corporate earnings. With returns on money market and credit instruments at comparatively low levels, capital flows poured into the equity sector, particularly into technology stocks. Early in the fiscal year, financial turmoil in Russia and Brazil, including the default on Russian debt obligations, contributed significantly to the volatility experienced in global financial markets during this period. On August 27 and 31, 1998, the Dow Jones Industrial Average posted its second and third largest point losses ever, and the NASDAQ 100 incurred its largest and second largest point declines ever. Further losses were caused by a mass liquidation and subsequent evaporation of liquidity in global financial markets. Long Term Capital Management LP (LTCM) sustained large losses during August and September 1998, and required a $3.6 billion recapitalization by a consortium of fourteen banks and institutions on September 28 to prevent its failure. Staff conducted heightened surveillance and prepared special analyses of these events and circuit breaker mechanisms. Staff also shared information with other financial regulators.

- _Automation of Surveillance Data Collection_. The surveillance staff began collecting daily option large trader data, as well as futures large trader reports, in electronic form from FCMs and foreign brokers. Exchanges are no longer required to file weekly reports of option large trader positions with the Commission. To assist the approximately 60 smaller brokerage firms, who previously filed manual reports, to file electronically, the Commission developed and distributed software that would enable firms to make electronic filings via the Internet. During the fiscal year, 55 such firms were converted to electronic filing, 38 using the software provided by the Commission.

- _Development of New Integrated Surveillance System_. Working closely with the Commission's Office of Information Resources Management (OIRM) staff and systems development contractors, the surveillance staff neared completion of the designing, testing, and implementing of the new integrated surveillance system. The core elements of this new system went into production in December 1999. All mainframe systems supporting market surveillance were replaced with client-server systems by that date.

Information on the Functions and Utility of the Markets

APP Table
Activity 1.2.3

In providing public information on the use and functions of futures and option markets, Market Surveillance staff prepared and made available via the Commission's Internet Web site approximately 8,400 *Commitments of Traders* and other reports. Data and routine reports were prepared and provided to numerous members of the public as well as other regulators.

Chicago Board of Trade Wheat Futures Contract

During FY 1999, program staff completed its economic review, and the Commission approved, proposed amendments to the delivery specifications of the CBT wheat futures contract which were submitted by the CBT in response to a request by the Commission. The Commission's request, which accompanied a notice to the CBT that the corn and soybean futures contracts delivery points did not comply with the requirements of section 5a(a)(10) of the CEA, was based on the Commission's concerns about the heightened potential for price manipulation due to the limited availability of deliverable supplies for the futures contract. The proposed amendments reduced the level of spot-month speculative position limits applicable to the last five trading days of the March and May contract months and changed the locational price differentials for deliveries at Toledo and St. Louis to make them more reflective of cash market pricing relationships among the contract's delivery points.

In approving the proposed amendments, the Commission advised the CBT of its continuing concerns about the adequacy of deliverable supply of wheat during the months of March and May, and recent developments concerning increased concentration of ownership or control of futures delivery facilities on the wheat futures contract. The Commission, therefore, directed the CBT to report annually for five years to the Commission after contract expirations begin under the revised wheat contract terms on the experience with deliveries and expiration performance and on the extent to which the contract's revised delivery terms may discourage or encourage deliveries to be made. In addition, the Commission directed the CBT to carefully monitor the 1999 wheat, corn, and soybean expirations to assess the degree of increased concentration in the ownership and control of approved delivery facilities at the contract's delivery points and whether it adversely impacts price convergence on the contracts and to report its findings to the Commission in January 2000.

Speculative Limits and Guideline No. 1

In May 1999, the Commission published a final rulemaking increasing Commission speculative position limits for various domestic agricultural products. The revised rules increase Commission speculative position limits only in the deferred trading months and simplify and reorganize various associated policies, exemptions, and rules. These revisions also amend the Commission's rule on aggregation. In June 1999, the Commission published an additional final rulemaking simplifying the application for new contract approval and eliminating unnecessary paperwork burdens associated with the designation application itself.

APP Table Activity 1.1.3

Contract Market Applications and Rule Amendments

In FY 1999, the staff reviewed 73 designation applications for new futures and option contracts—38 futures contracts and 35 option contracts—and 143 rule amendment packages for existing futures and option contracts. Of the designation applications, 30 were processed under the CFTC fast-track procedures. All but nine of the rule changes were processed either under fast-track or under regular procedures in less than the 45-day fast-track period. The contracts approved in FY 1999 include several that represent new approaches to futures trading as well as contracts based on the more traditional tangible commodities and financial instruments. The reviews seek to foster markets free of disruption or price manipulations and to foster commercially viable contracts.

Contracts in New Commodity Areas

- *Weather-Related Futures and Option Contracts*. Contracts approved this fiscal year include the CME degree days index futures and option contracts, the first contracts approved based on weather data. The contracts are based on accumulated temperature variations, i.e., heating and cooling degree days, over a one-month period for 10 specified cities in the United States—Atlanta, Georgia,; Chicago, Illinois; Cincinnati, Ohio; Dallas, Texas; Des Moines, Iowa; Las Vegas, Nevada; New York, New York; Philadelphia, Pennsylvania; Portland, Oregon; and Tucson, Arizona. These contracts are designed to provide a risk management tool to help businesses protect their revenue during times of depressed demand or excessive costs due to unexpected or unfavorable weather conditions.

New Contracts Based On Financial Instruments

- *Contracts Based on US and Foreign Interest Rates*. Contracts approved this fiscal year include the flexible coupon U. S. Treasury bond and Treasury note futures contracts of the CFFE, and the CME three-month Eurodollar FRA (forward rate agreement) futures and option contracts. Contracts based on foreign interest rates include the CME Euroyen LIBOR (London Interbank Offered Rate) futures and option contracts. These contracts were designed to provide a hedging vehicle for US banks and institutions that invest in US or Japanese debt instruments or otherwise have exposure to fluctuations in interest rates.

- *Contracts Based on US Equity Indexes*. These include the CME REIT (real estate investment trust) index and Nasdaq 100 index futures and option contracts, the KCBT internet index (ISDEX) futures and option contracts, and the NYFE Russell 1,000 large index future and the Russell 1,000 index option contract. These contracts provide institutional portfolio managers with an additional means of hedging risks associated with U.S equity portfolios.

- *Currency and Currency Cross-Rate Futures and Option Contracts*. These include the MCE euro future, the NYCE small euro future, the NYCE Australian dollar/Japanese yen cross rate, Australian dollar/New Zealand dollar cross rate, Swiss franc/Japanese yen cross rate, euro/Canadian dollar cross rate and euro/Norwegian krone cross rate futures and option contracts, and the CME E-Mini Japanese yen and E-Mini Euro futures and option contracts. These contracts were designed to facilitate the specialized hedging needs of import/exporter firms and institutional investors having trade payments and receipts in these currencies. In the normal course of conducting international trade, such firms face significant exposure in these currencies which can be offset with appropriately designed futures and option contracts.

New Contracts Based on Tangible Commodities

- *Livestock and Dairy Contracts*. Several additional livestock and dairy contracts were approved this fiscal year, including the CSCE large basic formula price (BFP) milk futures and option contracts, the CME cash-settled butter, nonfat dry milk, dry whey and stocker cattle futures and option contracts, and the CME BFP midsize milk option contract. These contracts will provide additional risk-shifting vehicles for livestock and dairy firms, producers, merchants, processors and packers.

- *Electricity Futures and Option Contracts*. Additional regional electricity futures and option contracts were approved this fiscal year, including the NYMEX and CBT PJM (Pennsylvania-Maryland-New Jersey) electricity futures and option contracts. These contracts provide electricity market participants risk management tools to respond to the evolving electricity cash market in an additional market regions of the Eastern US In this regard, there exists regional differences in the supply and demand for electricity, which results in pricing differences in the cash market. This is due to the nature of the electricity marketplace, where there are regional differences in fuel sources used for generation, weather conditions and transmission costs, and, most importantly, where there are limitations on the available transmission capability between different regions. These contracts were designed to meet the specialized hedging needs of firms in the electricity industry as a result of the ongoing deregulation of that industry.

- *Aluminum Futures and Option Contracts*. These COMEX contracts can be used by firms in the aluminum industry to hedge price risks associated with spot and forward market transactions in the US aluminum cash market.

- *Additional Energy Contracts*. Several additional energy contracts were approved this fiscal year, including the NYMEX average price crude oil, average price heating oil and average price unleaded gasoline options as well as the KCBT western natural gas index futures contract, which includes both physical delivery and cash-settlement provisions. These contracts provide additional pricing and hedging opportunities for participants in the petroleum and natural gas markets.

Significant Rule Changes

APP Table
Activity 1.2.3

During FY 1999, the staff completed the economic reviews of 143 rule amendment packages for existing futures and option contracts. Significant rule changes reviewed this year include:

- Revisions to the CBT wheat futures contract to: raise the locational price differential for St. Louis, Missouri, to 10 cents from eight cents per bushel; provide that deliveries at Toledo, Ohio, will be at par rather than at a two-cent premium; raise the quality differentials for No. 1 northern spring wheat to three cents per bushel from par; change the last trading and delivery days to the 15th day of the contract month rather than the eighth to last business day; change the load-out requirements; change the spot-month speculative limit provisions in the March & May futures delivery months.

- Revisions to the delivery standards for the CBT medium-term US Treasury note futures contract to reflect a change in the US Treasury pattern of auctioning five-year notes.

- Revisions to the CME Russian ruble futures contract relating to the cash-settlement calculation procedures, along with a proposal to reactivate trading in that contract.

- Changes to the CME random lengths lumber futures contract regarding the contract size and the quality standards relating to the specified deliverable species.

- Revisions to the CBT oats futures contract to eliminate the 7.5 cent per bushel locational price discount for deliveries at Minneapolis/St. Paul, Minnesota, so that deliveries there would be at par with Chicago.

- Revisions to the CBT soybean oil futures contract to: change the procedure regarding the automatic annual adjustments to locational price differentials by raising to 20 cents from 10 cents per cwt. the maximum allowable change per territory; provide that warehouse operators not on Class I railroads pay the switching/freight costs to the nearest such railroad; limit each regular facility's delivery capacity to 30 times its daily load-out rate.

- A proposal to reactivate trading in the NYCE's dormant FCOJ-2 (frozen concentrated orange juice) futures contract along with substantive modifications to the contract's terms. The contract revisions include changes to the quality standards, by adding a Brazil & Florida origin requirement, additional revisions to other quality standards and the adoption of procedures for trading based on a price differential relative to the existing FCOJ-1 contract.

- Amendments submitted by the NYMEX to the crude oil futures contract regarding deliverable foreign crudes and the associated premiums and discounts for delivery of those crudes.

- Amendments to the NYMEX's Palo Verde and California-Oregon Border electricity contracts to halve the contract size and the rate of delivery as well changes to the monthly delivery unit amounts.

- Changes to the CBT US Treasury instrument futures contracts regarding the specified coupon for the notional bond upon which the contracts are priced.

- Revisions to the circuit breaker price limits of certain domestic stock index contracts to add another intermediate "speed-bump" trigger level.

- Changes to the cash-settlement calculation procedures for the CME cheddar cheese, stocker cattle, and feeder cattle futures contracts, in part, to reflect changes to the manner in which the USDA calculates the component values of those prices.

Research on Market Functions and Developments

APP Table
Activity 1.2.2

In furtherance of the goal of protecting the economic functions of futures and option markets, in FY 1999, the Market Research staff studied the international competitiveness of US futures markets by analyzing the trends in world futures trading activity since 1993, when the staff last looked at this issue. Also as part of this effort, staff examined futures regulatory and technological developments that have occurred worldwide over the last six years.

Market Research staff analyzed the events surrounding the rescue of LTCM last year as a "prisoner's dilemma" and concluded that Federal Reserve intervention may have provided the only means to promote coordination of an efficient outcome by LTCM's creditors. The staff also thoroughly reviewed the Commission's hedging definition in light of cash and futures market developments that have taken place in the last ten years. This project was undertaken in support of reviews of contract designation applications. The staff performed a study on trading volume, bid-ask spreads, and volatility in futures markets. The study examined key economic relationships among these three variables and provided empirical estimates of trading volume with respect to trading costs.

Trading & Markets

The proper economic functioning of futures and option markets depends on appropriate surveillance to reduce the risk of disruptions that adversely affect the pricing function of the markets or that precipitate financial failures at given firms, which in turn may compromise customer funds and/or create risks to the system as a whole. The Trading and Markets program maintains oversight and direct surveillance programs to foster open, competitive, and financially sound markets. As markets become more globalized, the prompt detection of problem situations and the availability of efficient and pragmatic mechanisms to assure sufficient information flows among markets to address such situations are increasingly a concern and an area to which the Trading and Markets program has devoted significant resources.

APP Table
Activity 1.1.2

Volatile Markets Oversight, Prevention, & Emergency Management

The Trading and Markets program routinely monitors market price movements throughout the day. Staff follow up on major market moves, i.e., situations where futures and option prices move in one direction for an unusually long period of time or move very sharply in a short period of time. During volatile markets, staff assess the market situation to determine the financial effect of the price movement on market participants (such as commodity brokerages and their customers) and also obtain assurances from exchange clearing organizations that variation settlements among clearing members and the clearing house have been completed successfully.

During FY 1999, there were not as many volatile market events as in other years. However, the markets experienced continued unusual activity commencing in October, 1998 and ending in April, 1999 owing to the rises in the stock indices. The staff identified four days of unusual volatility in that period which led the staff to contact exchange clearinghouses to determine if any problems were experienced by clearing member firms. In each case the exchange clearinghouses reported that clearing members holding major positions were firms generally active in the market and that no problems were observed in the collection of margin nor were there other facts raising concerns. No action was required by the Commission because of these specific instances or because of the continuing stock market effect on futures stock indices.

APP Table
Activities 1.2.2 & 1.2.3

Information Efforts on the Functions and Utility of the Markets

The Trading and Markets program staff met with various foreign market regulators to brief them on the financial, audit and compliance programs of the Commission. These briefings provide assistance to foreign regulators in developing similar programs for their markets. Division staff also briefed Congressional staff members and participated in panels sponsored by industry organizations. Many of these panels were focused on the regulatory response to market risks created by large commodity pools or "hedge funds."

Several representatives from the audit and accounting staff of the Commission assisted the American Institute of Certified Public Accountants (AICPA) in drafting an audit practice aid for audits of FCMs, published in 1999.

APP Table
Activities 1.1.4, 5, 6, 7

Enforcement

The proper economic functioning of futures and option markets depends upon effective investigation and prosecution of manipulative and abusive trading practices and speculative limits violations. Domestic and foreign markets are becoming increasingly interrelated, and trading strategies are becoming more complex as technology develops, regulatory barriers are eliminated, and formal links are established among markets. In this environment, the Enforcement program has observed that abusive conduct in one market can cause substantial harm in related markets. The Enforcement program plays a critical role in Commission efforts to foster futures and option markets that reflect legitimate supply and demand forces, free of disruptive activity, through Enforcement proceedings which enable the Commission to remove threats posed to markets by particular market participants. Examples of the Commission's work in these areas follow.

Manipulation

In FY 1999, the Enforcement program's investigation into events in the copper market resulted in the filing of additional manipulation charges.[1]

- In re Global Minerals & Metals Corp., et al. In May, the Commission filed a one-count administrative complaint against Global Minerals and Metals Corporation (Global); Global's president and chief executive officer R. David Campbell; and Global's chief copper trader Carl Alm. The complaint alleged that the respondents manipulated, cornered, and attempted to manipulate and attempted to corner the copper market in late 1995. The complaint also named Merrill Lynch & Co., Inc. (Merrill Lynch), Merrill Lynch International, Inc. (Merrill International), and Merrill Lynch, Pierce, Fenner and Smith (Brokers & Dealers) Limited of London, England (Merrill (B&D)) (collectively referred to as the Merrill Lynch respondents), and alleged that these respondents aided and abetted Global, Campbell, and Alm in the worldwide copper market manipulation and attempted manipulation. Specifically, the complaint alleged that between October and December 1995, Global, Campbell, and Alm, together with Sumitomo Corporation of Japan, manipulated and attempted to manipulate upward the worldwide price of copper and copper futures contracts in violation of the Act. According to the complaint, the manipulation of copper prices was the culmination of a long and deliberate scheme by Campbell and Sumitomo's former chief copper trader, Yasuo Hamanaka , to acquire large market positions and liquidate them at distorted and artificially high prices. In order to accomplish the manipulation, the CFTC alleged that Global, Campbell, and Alm, in order to accomplish the manipulation, among other things: acquired and maintained a dominant and controlling position in London Metal Exchange (LME) warehouse stocks of copper and thereafter withheld substantially all or a large percentage of that copper from the market; purchased and held massive and unneeded long copper futures contract positions; and engaged in an elaborate

[1] Previously, on May 11, 1998, the CFTC issued an opinion and order against Sumitomo Corporation of Japan, to which Sumitomo consented without admitting or denying the findings therein, finding that Sumitomo had violated the Commodity Exchange Act, as amended (Act) by manipulating upward the price of copper and copper futures, and imposing sanctions including a cease and desist order and civil monetary penalty of $125 million, and the establishment of an escrow account in the amount of an additional $25 million to be used for the benefit of victims of the market manipulation or as a penalty. See *In re Sumitomo Corporation*, CFTC Docket No. 98-14 (CFTC filed May 11, 1998).

scheme of deception and false statements, which fostered the manipulation. As a result of their conduct, it is alleged, the prices of copper futures contracts, copper spread price differentials, and the prices of cash or physical copper, both in the US and abroad, reached artificially high levels. *In re Global Minerals & Metals Corp., et al.*, CFTC Docket No. 99-11 (CFTC filed May 20, 1999).

In June 1999, the Commission issued an order accepting the offer of settlement of Merrill (B&D) and Merrill International. *In re Global Minerals & Metals Corp., et al.*, CFTC Docket No. 99-11, Order Making Findings and Imposing Remedial Sanctions As To Respondents Merrill Lynch, Pierce, Fenner & Smith (Brokers & Dealers), Ltd. and Merrill Lynch International, Inc., And Dismissing The Proceedings As To Respondent Merrill Lynch & Co., Inc. (CFTC entered June 30, 1999). Without admitting or denying the allegations of the complaint or the findings contained in the order, Merrill (B&D) and Merrill International (collectively the Firms) consented to the entry of the order, which found that they aided and abetted violations of the anti-manipulation provisions of the Act during the fourth quarter of 1995. More specifically, the order found that the Firms aided and abetted the manipulators (Sumitomo Corporation of Japan and others) in at least the following ways: by providing more than one-half billion dollars of credit and finance to the manipulators; by providing trading facilities, accounts, and trading capacity through which the manipulators acquired their dominant position in a combination of futures contracts and warehouse stocks, and through which the manipulators sold or lent a small portion of their holdings at artificially high absolute prices and artificially high backward-dated spread price differentials; and by providing trading advice which the manipulators used in the execution of their strategy of withholding their copper from the market. The order stated that the Firms possessed the requisite knowledge and intent to find that they aided and abetted the manipulators' violations. In addition, the order found that Merrill (B&D) benefited from the manipulation by providing financing, trading facilities, and credit to the manipulators, and by earning profits through its proprietary trading. The CFTC ordered the Firms to pay a civil monetary penalty of $15 million and to cease and desist from further violations of the Act, as charged. The settlement also requires the Merrill Lynch respondents to cooperate with the CFTC in proceedings and any investigations related to this matter and dismisses the action as to Merrill Lynch & Co., Inc.

Trade Practice Matters – Cases Filed

APP Table

Activities 1.1.4, 5, 6, 7

The Commission has continued to pursue actions that address specific types of fraudulent practices that affect the interests of customers and the integrity of futures markets. The Commission filed the following trade practice cases during FY 1999.

- *In re Soule, et al.* In December 1998, the Commission filed a three-count administrative complaint against Kyler F. Lunman II, his company, Hold-Trade, Inc. (also known as Hold Trade, Ltd.) (Hold-Trade) and Steven G. Soule, a former employee of Coastal Corporation (Coastal). The complaint was amended on February 4, 1999 to add as a respondent Robert C. Rossi, the principal owner and manager of Refined Energy Executions, Inc. and Refine Executions, Inc. (collectively Refined) which provided Coastal with floor broker (FB) services on the New York Metal Exchange (NYMEX). The amended complaint alleged that, from September 1993 through December 1994, the respondents defrauded Coastal by misappropriating its energy futures trades and wrongfully allocating them to accounts they controlled. Specifically, the complaint alleged that Soule, as the Coastal employee responsible for entering its energy futures orders to the floor of the NYMEX, allocated profitable Coastal trades to futures trading accounts owned or controlled by respondents Lunman and Hold-Trade who, along with Rossi, distributed the profits among the members of the scheme. *In re Soule, et al.*, CFTC Docket No. 99-4 (CFTC filed December 22, 1998, amended February 4, 1999).

- In re Mitsopoulos, et al. In September 1999, the Commission filed a four-count administrative complaint against Constantine Mitsopoulos, alleging that Mitsopoulos committed fraud while handling customer orders. The complaint also alleged that Margaret Dull, Lisa Budicak, and Richard Marisie violated order-taking and recordkeeping requirements. Mitsopoulos was also charged with order-taking and recordkeeping violations and ailing to supervise diligently Dill, Budicak and Marisie. The charges against Mitsopoulos, a registered floor broker (FB), and Dull, Budicak, and Marisie, phone clerks who worked for Mitsopoulos, arise out of an alleged fraudulent trade allocation scheme undertaken by a registered introducing broker (IB) over an approximate two-year period. From at least January 1994 through December 1995, the IB allegedly entered orders for thousands of treasury bond futures and options contracts per day for its customers through Mitsopoulos' floor desk at Refco, Inc. on the CBOT and, for a substantial number of the orders, did not provide account identification until after the trades were executed. As a result, the IB was allegedly able to allocate trades at better prices to certain customer accounts and trades at worse prices to other customer accounts. The IB also allegedly allocated trades by instructing one of the phone clerks to transfer executed and already assigned trades from one customer account to another by changing the account numbers on the executed trades. The complaint alleged that Mitsopoulos routinely allowed the IB to delay giving account numbers for trades until after they were executed and to transfer trades between customer accounts after the trades were executed. By such actions, Mitsopoulos allegedly committed fraud by breaching his duty to pursue the best possible price for customers, failing to inform customers that he routinely accepted orders from the IB without account identification, and allowing trades to be moved from one account to another after execution, in violation of the Act and Commission regulations. The complaint further alleged that Mitsopoulos, Dull, Budicak, and Marisie violated Commission order-taking and recordkeeping requirements by not placing account identification on order tickets immediately upon receipt of the orders from the IB in violation of the Act and Commission regulations. Mitsopoulos is also charged with failing to supervise diligently the activities of Dull, Budicak, and Marisie, and failing to design, implement, monitor, and follow a program of supervision and compliance designed to detect and deter violations of the Act and Commission regulations. *In re Mitsopoulos, et al.*, CFTC Docket No. 99-17 (CFTC filed Sept. 30, 1999). On May 24, 1999, the Commission filed and settled a related action against Refco, Inc. *In re Refco, Inc.*, CFTC Docket No. 99-12 (CFTC filed May 24, 1999).

Trade Practice Matters – Other Enforcement Results

During FY 1999, the Division obtained these additional results in the trade practice area.

- In re Collins, et al. In November 1998, the Commission resolved a portion of this trade practice case through settlement with respondent Geldermann, Inc. The Commission made findings—neither admitted nor denied by Geldermann—that Geldermann, a registered FCM, transferred and confirmed the transfer of 120 positions in futures contracts among accounts with different ownership by simply entering those transfers on its books. The Commission found that these book entries, or transfer trades, were not made to correct errors and were not made in accordance with the board of trade rules applying to such transactions. Accordingly, the Commission found that Geldermann violated the Act and Commission regulations by engaging in fictitious sales, facilitating the purchase or sale of futures contracts through transactions which were executed noncompetitively, and failing to diligently supervise the handling of the accounts in question. The Commission ordered Geldermann to cease and desist from the violations of the Act and regulations as alleged; to pay a civil monetary penalty of $325,000; and to appoint a consultant to review Geldermann's compliance procedures and to recommend necessary changes. *In re Collins, et al.*, CFTC Docket No. 94-13, Order Making Findings and Imposing Remedial Sanctions as to Respondent Geldermann, Inc. (CFTC entered November 10, 1998).

- In re Fisher, et al. In August 1999, the Commission issued an order accepting an offer of settlement from Michael Singer, a registered FB on the Coffee, Sugar & Cocoa Exchange (CSCE), in connection with an administrative complaint alleging trade practice fraud filed by the Commission on October 19, 1992. The order, filed on August 23, 1999, found that Singer violated the Act by cheating and defrauding his customers in the handling of their orders while trading on the CSCE. According to the order, Singer: executed trades noncompetitively with other brokers and local traders which enabled him to indirectly bucket his own customer orders; illegally took the opposite side of his customers' orders; illegally offset two customer orders opposite the same floor trader at advantageous prices to that trader; benefited from changes to execution prices on customer orders while trading for himself; and aided and abetted another floor broker to bucket indirectly that broker's customers' orders. Without admitting or denying the findings, Singer consented to the entry of the order which, among other things: directed Singer to cease and desist from violating the Act and regulations as alleged in the complaint; prohibited Singer from trading for five years; revoked Singer's registration with the Commission; and assessed Singer a civil monetary penalty of $75,000. Singer also agreed never to apply for registration or claim exemption from registration with the Commission or to act in any capacity requiring registration or for which exemption from registration may be claimed. *In re Fisher, et al.*, CFTC Docket No. 93-2, Order Making Findings and Imposing Remedial Sanctions as to Michael Singer (CFTC entered Aug. 23, 1999). The litigation continues as to the remaining respondents found liable by a Commission Administrative Law Judge (ALJ) in his Initial Decision issued on May 5, 1999, which is now on appeal to the Commission.

- *Reddy, et al. v. CFTC, and Mayer, et al. v. CFTC.* On September 3, 1999, the United States Court of Appeals for the Second Circuit issued a decision denying petitions for review of Commission orders in two complex trade practice cases, *In the Matter of Reddy, et al.*, CFTC Docket No. 92-19, and *In the Matter of Solomon Mayer, et al.*, CFTC Docket No. 92-21. The Commission's orders found that the petitioners had violated the Commodity Exchange Act and Commission regulations in connection with their trading activities on the Coffee, Sugar and Cocoa Exchange and the New York Mercantile Exchange, respectively. The Commission's order affirmed the sanctions imposed by the administrative law judge in *Reddy*, but *sua sponte* increased the sanctions imposed by the judge in *Mayer*. Both petitions for review challenged the Commission's liability findings and argued that the Commission abused its discretion by failing adequately to explain its choice of sanctions. The petitioners also argued that the Commission's decisions should be set aside on the ground of administrative delay in deciding cases. Because of the similarity of issues, the Court heard these petitions together. The court affirmed the reasonableness of one of the core concepts underlying the Commission's analysis of non-competition trading; namely, that a suspicious pattern of trades, accompanied by audit-trail regularities, can "provide strong evidence of artificial trading." The court acknowledged that while such evidence was circumstantial, "circumstantial evidence is often all that is available in cases involving artificial trading." The Second Circuit rejected petitioner Steven F. Reddy's argument the Division's delay in bringing and prosecuting the case violated his right to a speedy trial by noting the complexity of the trades, the fact that the violative conduct occurred over an extended period of time and the fact that the petitioners contributed to the delay by requesting numerous extensions of time. The court found that, not only were the petitioners prejudiced by the delay, but hat may have benefited from it because it allowed them to continue trading and deferred their obligation to pay their civil monetary penalties.

As to sanctions, petitioners argued that the Commission abused its discretion by failing to provide sufficient explanations of why it chose the sanctions it did. The Second Circuit rejected this argument holding that the Commission, in explaining its choice of sanctions, is merely required to provide an indication sufficiently discernable to allow the court to exclude arbitrariness as the explanation for a sanction. The *Mayer* petitioners also argued that the Commission violated their due process rights by *sua sponte* increasing the sanctions imposed by the ALJ. The court disagreed holding that the Commission's adoption of a *de novo* standard of review of an ALJ's choice of sanctions was proper and neither altered the parties' substantive rights nor created new legal obligations or liabilities. *Reddy, et al. v. CFTC*, Nos. 98-4070 and 4071, and *Mayer, et al. v. CFTC*, Nos. 98-4099 and 4100, 191 F.3d 109 (2d Cir. Sept. 3, 1999).

Office of the General Counsel

Contract Market Designation Applications

APP Table
Activity 1.1.3

During FY 1999, the Office of the General Counsel reviewed approximately 73 contract market designation applications for legal sufficiency and conformance with the CEA and Commission policy and precedent. A particularly significant designation was the CFFE, the first electronic daytime trading system in the US.

Manipulation and Other Abusive Trading Practices

APP Table
Activities 1.1.4, 5, 6, 7

The Office of the General Counsel reviewed all proposed enforcement actions alleging manipulation and other abusive trading practices during FY 1999 to assure their legal sufficiency and conformance with general Commission policy and precedent. A noteworthy complaint alleging manipulation reviewed by the staff was *In re Global Minerals & Metals Corp., et al.*, No. 99-11 (CFTC May 20, 1999), in which the Commission charged Global Minerals & Metals Corp., its President and Chief Executive Officer, and its chief copper trader (collectively Global) with manipulating and cornering and attempting to manipulate and corner the copper market in late 1995. The complaint also charged Merrill Lynch & Co., Inc., Merrill Lynch International, Inc., and Merrill Lynch Pierce Fenner & Smith (Brokers & Dealers), Ltd. (collectively Merrill Lynch) with aiding and abetting Global in worldwide copper market manipulation and attempted manipulation. The case arose out of an earlier investigation of Sumitomo Corporation of Japan (Sumitomo), which culminated in a 1998 Commission complaint charging Sumitomo with manipulating the price of copper through actions taken on the London Metals Exchange. Sumitomo subsequently agreed to pay $125 million in penalties and $25 million in restitution. On May 20, 1999, the Commission entered an order of settlement with Merrill Lynch through which Merrill Lynch agreed to pay a civil monetary penalty of $15 million. The case against Global is ongoing.

Coordination of Information and Efforts Among US Regulators

APP Table
Activity 1.2.1

The Office of the General Counsel provided support to Commission representatives participating in the President's Working Group on Financial Markets during FY 1999. Issues considered by the working group included risk assessment, capital requirements, internal controls, disclosure, market practices relating to trading in derivative instruments, bankruptcy law revisions, and contingency planning for market emergencies. In April 1999, the working group delivered to Congress a report on hedge funds prepared in the wake of the near collapse of Long Term Capital Management. The report contained a set of recommendations designed to constrain leverage and enhance private sector risk management practices. On November 9,1999, the working group submitted a second report to Congress on issues related to OTC derivative transactions. The report addressed the legal uncertainty that has existed in the United States with respect to the OTC markets and the possibility that continued uncertainty may discourage innovation and growth in theses markets and drive transactions away from the US. The report recommended amendments to the Commodity Exchange Act designed to provide legal certainty in this area, to remove impediments to innovation, to reduce systemic risk by removing legal obstacles to the development of appropriately regulated clearing systems, to protect retail customers from unfair practices by providing the Commission with clear authority to address problems arising out of foreign currency bucket shops, and to maintain US leadership in these rapidly developing markets.

Providing Information on the Functions and Utility of the Markets through Public Meetings

APP Table
Activity 1.2.3

The Office of the General Counsel supported the Commission during FY 1999 by providing guidance on both procedural and substantive matters in connection with the public meetings of its three advisory committees and a Commission-sponsored roundtable discussion. Specifically, the Office of the General Counsel advised the Commission with respect to the activities of the Global Markets Advisory Committee, which met three times during FY 1999 to consider complex issues surrounding the placement of foreign electronic trading terminals in the US, impediments to cross-border business, and various initiatives of the International Organization of Securities Commissions (IOSCO). In addition, the Office of the General Counsel advised the Commission with respect to a Commission-sponsored roundtable discussion conducted to further inform the public and market participants regarding proposed Commission rules governing electronic trading and the admission and oversight of foreign competitors wishing to operate electronic trading terminals in the US. The Office of the General Counsel also advised the Commission concerning the activities of the Agricultural Advisory Committee, which met on April 21, 1999 to explore a number of topics including risk management strategies for producers of agricultural commodities, the Commission's Agricultural Trade Options Pilot Program, and legislative initiatives on risk management and crop insurance. Also during FY 1999, the Office of the General Counsel arranged for the renewal of the Agricultural Advisory Committee's charter, which was extended for another two-year term, thus enabling the committee to continue to assist the Commission in assessing issues affecting agricultural producers, processors, lenders, and others interested in or affected by the agricultural commodities markets. The Commission's third committee, the Financial Markets Advisory Committee, did not meet during FY 1999 due to the departure of its Chairperson, former Commission Chairperson Brooksley Born. During FY 2000, the Office of the General Counsel assisted the Commission's new Chairman, William J. Rainer, in refocusing the direction of the committee by arranging for its rechartering. The newly chartered committee, known as the Technology Advisory Committee, will assist the Commission in exploring a wide array of issues arising out of the rapidly changing technological environment of the financial services and commodities markets and the impact of technology on these markets and their participants.

Executive Direction & Support

Administrative Management & Support

APP Table
Activity 1.1.1

During FY 1999, OIRM completed work on several systems development projects. OIRM modified the agency's Integrated Surveillance System to accept large trader reports directly from FCM's rather than from the exchanges. As a result, agency surveillance staff will have access to information on options large trader positions earlier and more reliably than in the past. OIRM staff held meetings with exchanges in New York, Chicago and Kansas City to discuss the exchanges interest in and capabilities for receiving daily futures and option large trader data directly from the Commission.

APP Table
Activity 1.1.2

A Designations and Rules Tracking System to support fast-track rule reviews conducted by the staffs of the Trading and Markets and Market Surveillance, Analysis, and Research programs was completed and implemented. The requirements for a new Exchange Database System to be used by the divisions of Trading and Markets and Enforcement were completed. In addition, the newly developed intranet, *Open Interest*, provides links to a variety of market information and research tools which support Commission programs.

Goal One: FY 2000 and FY 2001 Plan by Program

Market Surveillance, Analysis & Research

Market Surveillance and Special Analyses

APP Table
Activities 1.1.1 & 1.1.2

The Commission anticipates continued rapid growth in the number and variety of futures and option contracts that US exchanges list for trading in their efforts to compete with foreign exchanges, emerging US electronic exchanges and over-the-counter markets. The Commission expects that the number of active futures and option markets requiring surveillance to increase from 251 in FY 1999 to 319 in FY 2001. Many of these new contracts will be traded only on electronic systems or simultaneous electronic and open outcry trading. Industry efforts to integrate financial cash market trading and over-the-counter derivative trading through common electronic trading platforms or other mechanisms will increase the importance of a surveillance effort that examines the relationship between futures and option contracts and the underlying commodity or market instrument. In view of this expected growth, it is anticipated that surveillance economists will produce 3,000 weekly surveillance sheets in FY 2001 as compared to 2,567 in FY 1999 and will conduct 85 special analyses.

Streamlining Large Trader Reporting

In FY 1999, the Commission completed the process of converting the daily reporting of all FCMs and foreign brokers to include options as well as futures positions and to receive the data electronically as opposed to manually. In early FY 2000, the Commission will complete its reengineering of the computer system that supports market surveillance, replacing the current mainframe system with a client-server system. Enhancements to that system will continue into FY 2001. The anticipated growth in the US futures and option trading will increase the volume of surveillance data that must be processed by this system. The number of line items of data is expected to grow from 8.1 million in FY 1999 to 30 million in FY 2001 due to the expanded coverage of option markets. Additional staff time will be devoted to assuring that these data are received and processed in an accurate and timely manner. Surveillance staff also will continue to spend considerable time testing and modifying, as appropriate, enhancements to the core elements of the new surveillance computer system.

Review of CFTC Regulations

The Commission has undertaken a broad review of its regulations and their effect on the competitiveness and efficiency of derivatives markets. Over the past decade there have been significant advances in the development and use of derivative instruments, including futures and option contracts, as well as in the trading platforms on which these instruments are executed. In an effort to ensure that the regulatory scheme under which these contracts are traded remains current, the Commission has undertaken a broad review of its rules with the intention of eliminating obsolete rules and streamlining and coordinating regulations across markets. The review is being conducted under the leadership of the Division of Economic Analysis with representatives from all of the Commission's divisions. The Commission anticipates completing its review in early 2000.

Contract Market Applications and Rule Amendments

APP Table
Activity 1.1.3

The trend of increasing contract market product development will continue through FY 2000 and FY 2001. A total of 75 new contract market designations are expected to be submitted to the Commission in FY 2001, due largely to the continuing interest and competitiveness of the exchanges in developing innovative futures in both the financial and physical commodity sectors and in other nontraditional areas and the tendency to establish option contracts on new futures that have traded successfully for a period of time. In addition, 145 rule changes are expected to be submitted during FY 2001. These will include a number of significant changes to existing rules to maintain conformity with changing cash market practices.

Projections are based on the rate of submission of new designations in recent years and indications that the existing exchanges as well as new entrants will continue to make innovative proposals, particularly with regard to contracts based on currencies, foreign stock indexes, and fixed-income securities issued by foreign governments, as well as new concepts in futures in non-traditional commodity areas, such as additional contracts in the environmental and weather areas and electricity and contracts based on various non-equity indexes such as bankruptcy futures. Exchanges will be expected to continue to explore the possibility of establishing new contracts in the traditional agricultural and natural resource commodities to meet newly defined unmet hedging needs and as a result of potential changes in government programs and regulatory requirements. These projections also anticipate a modest increase in the number of exchange submissions of rule changes to update existing futures contracts to conform with changing cash market practices as well as changes in government programs and regulations. Many of these submissions will involve significant changes to existing rules to reflect ongoing changes to cash market practices for many tangible commodities.

APP Table
Activity 1.2.2

Research on Market Functions and Developments

During FY 1999, the Market Research staff provided support for the Enforcement program on several ongoing cases involving various derivative and hybrid financial products. The continued phasing out of certain US Department of Agriculture farm programs contributed to the development of new agricultural risk-shifting tools which involved CFTC jurisdictional questions that turned, at least in part, on an economic analysis of the tool at issue.

In FY 2000, the Commission expects continued growth in both exchange and off-exchange trading volume in derivatives and that this growth will require increased input from the Market Research staff on enforcement matters with significant economic issues. Continued innovation in both trading instruments and methods will require that Market Research staff provide timely analyses of likely pricing and usage patterns with the goal of protecting the economic functions of the markets.

Commission involvement with the US Department of Agriculture Risk Management Education Project will continue in FY 2001 as the US Department of Agriculture attempts to prepare farmers and other producers for less government assistance and as more complex hedging instruments are developed. Resources will continue to be devoted to research on risk assessment practices and theory in order to protect further the economic functions of the regulated markets.

APP Table
Activity 1.2.2

Agricultural Trade Options

Under the amended rules on agricultural trade options, trade option merchants are required to collect and report certain information including the volume of business being conducted and the number of customers entering into options. The amended rules also anticipate that additional information may be collected through special calls. During FY 2001, the Market Research staff will analyze this information to determine overall participation in the agricultural trade option program, to assess the effectiveness of regulations in meeting program goals and to determine what, if any, changes to the program should be proposed.

Trading & Markets

Oversight and Emergency Management of Market Volatility

During FY 2000 and FY 2001, the Trading and Markets program will monitor major market moves to identify and respond to potentially disruptive situations. The risk assessment program will continue to play an important role in the oversight of market volatility by the Trading and Markets program.

The Trading and Markets program will respond to potentially disruptive activity on a case-by-case basis and develop appropriate, innovative, and pragmatic responses thereto. Potential problem areas on which the Trading and Markets program has already focused its attention and will continue to focus upon during FY 2000 and FY 2001 to ensure sound resolution include: 1) the millennium effect on financial services software and systems; 2) systemic risk issues surrounding the activities of hedge funds; 3) increased participation by regulated firms in emerging markets; 4) changes in the markets which further link cash and derivatives (on-exchange and off-exchange); 5) cross-border trading; and 6) growth in the number of automated trading systems.

Information Efforts on the Functions and Utility of the Markets

APP Table
Activity 1.2.1

During FY 2000 and FY 2001, the Trading and Markets program will continue to support the President's Working Group on Financial Markets and to represent the Commission on the President's Working Group on Year 2000. The Trading and Markets program will also participate in Commission advisory committee efforts and expand its role in both interagency and private sector intermarket coordination activities. The Trading and Markets program will conduct roundtables and symposia and facilitate dialogue with academics and market professionals to stay abreast of the needs of market participants. The Trading and Markets program and Office of International Affairs (OIA) will coordinate its efforts with those of foreign regulators and professional organizations in the areas of accounting, capital, market surveillance, and financial compliance, with particular focus upon linkages, full service financial firms, and new products.

Enforcement

APP Table
Activities 1.1.4, 5, 6, 7

The Enforcement program anticipates that challenges to the proper economic functioning of futures and option markets presented by manipulative and abusive trading practices will continue to require a consistent level of resources for investigation and litigation. Staff will monitor markets to identify, deter, and address disruptive or potentially disruptive situations. Domestic and foreign markets are becoming increasingly interrelated, and that trend will continue for the foreseeable future as technology develops, regulatory barriers are eliminated, and formal links are established between markets. As the regulatory and technological environment for exchange markets changes to facilitate trading by institutional market participants, the Commission will continue to police the markets to sanction violators for price manipulation and fraudulent trading practices. These regulatory and technological changes will enable traders to employ complex strategies more easily and could permit abusive conduct in one market to cause greater harm in other, related markets.

By way of example, in the recently filed case, *In re Global Minerals & Metals Corp., et al.*, CFTC Docket No. 99-11 (CFTC filed May 20, 1999), the Commission alleged that respondents Global Minerals and Metals Corporation (Global); R. David Campbell, Global's president and chief executive officer; and Carl Alm, Global's chief copper trader, manipulated, cornered, and attempted to manipulate and attempted to corner the copper market in late 1995. The complaint also named Merrill Lynch & Co. Inc.; Merrill Lynch International, Inc.; and Merrill Lynch, Pierce, Fenner and Smith (Brokers & Dealers) Limited of London, England (collectively referred to as Merrill Lynch), alleging that they aided and abetted Global, Campbell, and Alm in the worldwide copper market manipulation and attempted manipulation. As in the related, previously filed *Sumitomo* matter,[2] Commission staff worked closely with authorities in the United Kingdom and Japan. The Enforcement program's pursuit of this cross-market, cross-border case exemplifies the Enforcement program's commitment to fostering futures and options markets that reflect legitimate supply and demand forces and that are free of disruptive activity.

Through enforcement cases charging manipulation and trade practice violations, the Commission imposes specific sanctions including trading prohibitions and registration sanctions to remove the threat posed to markets by particular traders. The Commission also imposes substantial civil penalties, issues cease and desist orders and can require restitution by wrongdoers. Such sanctions serve both to compensate victims and to send a deterrent message, discouraging other would-be violators from engaging in similar misconduct.

Manipulation and trade practice investigations and cases tend to be among the most complex and resource intensive matters handled by program staff for several reasons: 1) staff must become experts in understanding complex trading strategies and the intricacies of the underlying cash markets; 2) investigations require detailed reconstruction of trading using voluminous records; and 3) assistance sometimes is required from foreign regulators. The number of such matters that are active at any one time is relatively small. The Enforcement program does not anticipate a significant increase in such matters in FY 2000 and FY 2001 given the substantial surveillance resources employed by the Commission and the exchanges to detect and deter potentially disruptive practices. Nevertheless, past experience indicates that the Enforcement program staff will continue to be called upon in the future to investigate and prosecute such cases at a fairly consistent level.

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[2] On May, 11, 1998, the CFTC issued an opinion and order against Sumitomo Corporation of Japan, to which Sumitomo consented without admitting or denying the findings therein, finding that Sumitomo had violated the Commodity Exchange Act, as amended, (Act) by manipulating upward the price of copper and copper futures, and imposing sanctions including a cease and desist order and civil monetary penalty of $125 million, and the establishment of an escrow account in the amount of an additional $25 million to be used for the benefit of victims of the market manipulation or as a penalty. See *In re Sumitomo Corporation*, CFTC Docket No. 98-14 (CFTC filed May 11, 1998).

Office of Proceedings

The Office of Proceedings will hear and decide administrative and enforcement cases brought by the Commission. One case involving manipulation was filed in FY 1999.

APP Table
Activities
1.1.4, 5, 6, 7

Office of the General Counsel

Contract Market Designation Applications

The Office of the General Counsel will continue to review contract market designation applications for legal sufficiency and conformance with the CEA and Commission policy and precedent.

Manipulation and Other Abusive Trading Practices

The Office of the General Counsel will continue to review all proposed enforcement actions alleging manipulation and other abusive trading practices to assure their legal sufficiency and conformance with general Commission policy and precedent.

Coordination of Information and Efforts among US Regulators

The Office of the General Counsel will continue to provide support to the President's Working Group on Financial Markets.

Providing Information on the Functions and Utility of the Markets through Public Meetings

The Office of the General Counsel will continue to provide the Commission with guidance on both procedural and substantive matters in connection with the public meetings of its three advisory committees and all other public Commission meetings.

Executive Direction & Support

Agency Direction

The increased globalization of the commodity futures and option markets requires the entire international regulatory community to share information and to work together to prevent, and respond quickly to, market crises. OIA will coordinate with regulators throughout the world working in the areas of accounting, capital, market surveillance, and financial compliance, with particular focus on international linkages and new and innovative emerging markets and products.

Administrative Management & Support

In FY 2000, the Commission's mainframe computer and Chicago Data Center will be decommissioned in accordance with an OMB directive. OIRM will complete the Integrated Surveillance System reengineering and continue to develop a replacement system for the Exchange Database System with sufficient flexibility to handle both traditional and emerging electronic markets will begin.

Annual Performance Plan

In FY 2001, OIRM anticipates conducting analyses of the workflow requirements of the Division of Economic Analysis to identify opportunities to enhance the operations of the Division. Development will continue on the replacement system for the Exchange Database System.

Working Relationships in Support of Goal One

President's Working Group on Financial Markets

Coordinate initiatives on contingency planning for market emergencies.

Information Sharing with Other Financial Regulators

Bi-weekly calls to other financial regulators (SEC, US Treasury Department, Federal Reserve Board, FDIC) to review developments in the cash and futures markets for US Treasury securities; quarterly meetings are held to review major expiration of financial futures markets; also staff from the USDA and DOE regularly attend weekly market surveillance briefings.

US Department of Agriculture

Commission staff work on risk management education efforts with Steering Committee of the USDA Risk Management Agency and Cooperative State Research, Education, and Extension Service.

Agriculture Advisory Committee

A vital link to the agriculture community which depends on futures and option markets for hedging and price discovery.

Table 1: Goal One – Summary of Request by Program

	FY 2000		FY 2001		CHANGE	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
Market Surveillance, Analysis, & Research	$6,206	72.00	$7,489	81.00	$1,283	9.00
Trading & Markets	1,129	10.00	1,392	12.00	263	2.00
Enforcement	2,901	24.52	3,387	28.24	486	3.72
Proceedings	0	0.00	0	0.00	0	0.00
General Counsel	1,039	7.95	1,230	9.16	191	1.21
Executive Direction & Support	5,382	47.54	5,934	49.54	552	2.00
TOTAL:	**$16,657**	**162.01**	**$19,432**	**179.94**	**$2,775**	**17.93**

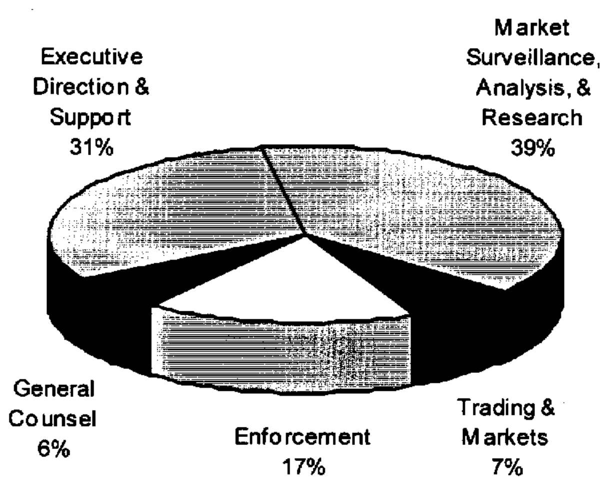
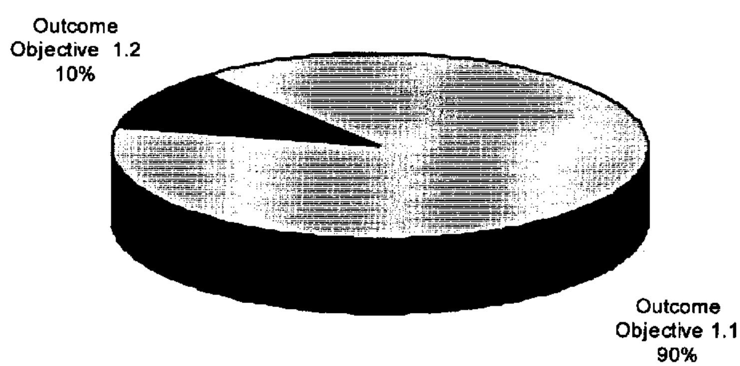


Figure 3: Goal One – FY 2001 Budget Dollars by Program

Table 2: Goal One Summary of Request by Outcome Objective

	FY 2000		FY 2001		CHANGE	
	$ (000)	FTE	$ (000)	FTE	$ (000)	FTE
GOAL ONE: Protect the economic functions of the commodity futures and option markets.						
Outcome Objectives						
1.1 Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.	$ 15,245	147.39	$ 17,541	161.65	$2,296	14.26
1.2 Oversee markets which can be used effectively by producers, processors, financial institutions and other firms for the purposes of price discovery and risk shifting.	$ 1,412	14.62	$ 1,891	18.29	$479	3.67
Total Goal One	**$16,657**	**162.01**	**$19,432**	**179.94**	**$2,775**	**17.93**

Figure 4: Goal One – FY 2001 Budget Dollars by Outcome Objective



Ranking of Goal One Activities

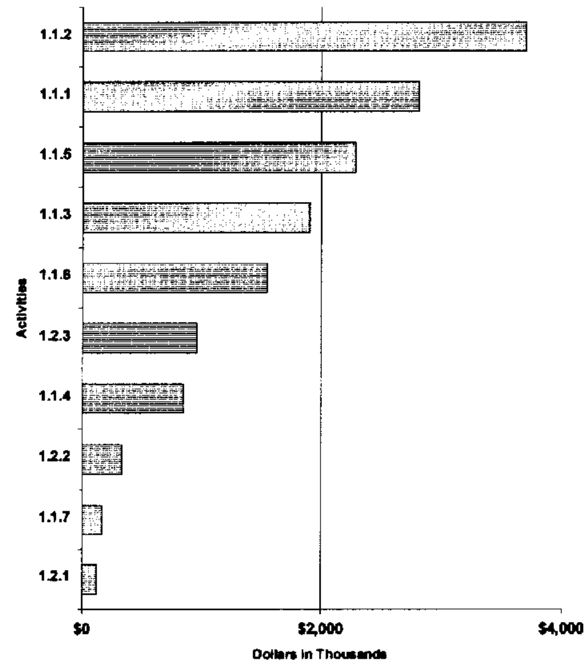


Figure 5: Ranking of Goal One Activities

- **Activity 1.1.2:** Monitor the markets to detect and respond quickly to potentially disruptive situations such as market congestion and/or potential price manipulation.
- **Activity 1.1.1:** Collect U.S. futures and option large trader and exchange-generated data for all actively trading contracts to support market surveillance, enforcement of speculative limits, dissemination of information to the public, and futures market studies and research by Commission staff and others.
- **Activity 1.1.5:** Investigate possible manipulation and other abusive trading practices.
- **Activity 1.1.3:** Conduct timely review of contract market designation applications and changes to applications to determine if they are economically viable and do not pose a likelihood of disruption in the cash, futures, and option markets
- **Activity 1.1.6:** Institute enforcement cases concerning manipulation and other abusive trading practices.
- **Activity 1.2.3:** Provide materials and information on the functions and utility of the markets to the public through public Commission meetings, through public roundtables, advisory committee meetings, symposia, U.S. Department of Agriculture publications, press releases, advisories, routine reports on large trader activity, etc.
- **Activity 1.1.4:** Identify possible manipulation and other abusive trading practices for investigation and possible enforcement or criminal action.
- **Activity 1.2.2:** Maintain a current understanding of market functions and developments through studies and research.
- **Activity 1.1.7:** Sanction violators.
- **Activity 1.2.1:** Participate in the President's Working Group on Financial Markets to ensure coordination of information and efforts among U.S. financial regulators.

Summary of Annual Performance Targets

Goal One

Protect the economic functions of the commodity futures and option markets.

Outcome Objective 1.1

Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.

Annual Performance Goal

No price manipulation or other disruptive activities.

Activity/Strategy	Output Measure 1/	FY99	FY00	FY01	Outcome Measure 1/	FY99	FY00	FY01
1. Collect US futures and option large trader and exchange-generated data for all actively trading contracts to support market surveillance, enforcement of speculative limits, dissemination of information to the public, and futures market studies and research by Commission staff and others. (See ●, pp. 145, 160, 160)	Amount of trader and exchange-generated reports collected from firms.	8.1M	24.05M	30.05M	Percentage of collected reports reviewed and analyzed.	100%	TBD	TBD
	Number of projects/ measures intended to reduce reporting burdens and related costs on exchanges.	8	4	2	Percentage of projects/ measures implemented.	100%	TBD	TBD
	Number of projects implemented.	8	4	2				
2. Monitor the markets to detect and respond quickly to potentially disruptive situations such as market congestion and/or potential price manipulation. (See ●, pp. 145, 160, 152, 160, 162)	Number of emergencies and disruptive activities.	TBD	TBD	TBD	Of total futures and option markets, percentage of markets with emergencies and disruptive activities.	TBD	TBD	TBD
	Number of active futures and option markets.	251	299	319				
	Number of active futures and option markets with emergencies and disruptive activities.	TBD	TBD	TBD				
3. Conduct timely review of contract market designation applications and changes to applications to determine if they are economically viable and do not pose a likelihood of disruption in the cash, futures, and option markets. (See ●, pp. 147, 148, 158, 161)	Number of designation applications reviewed.	73	74	75	Percentage of such applications reviewed and responded to within 45-day period.	41%	TBD	TBD
	Number of designation applications reviewed within 45 days.	30	30	31	Percentage of such requests reviewed and responded to within 30-day period.	79%	TBD	TBD
	Number of rule change requests reviewed.	143	144	145				
	Number of rule change requests reviewed within 30 days.	113	114	115				
4. Identify possible manipulation and other abusive trading practices for investigation and possible enforcement or criminal action. (See ●, pp. 152, 154, 158, 163, 165)	Number of possible manipulation and other abusive trading practices identified.	TBD	TBD	TBD	Percentage of possible manipulation and other abusive trading practices identified which are investigated.	TBD	TBD	TBD
5. Investigate possible manipulation and other abusive trading practices. (See ●, pp. 152, 154, 158, 163, 165)	Number of such investigations opened during the fiscal year.	12	10	12	Of all such investigations closed during the fiscal year, percentage closed or resulting in enforcement action within one year of opening.	TBD	TBD	TBD
	Number of such investigations pending at close of fiscal year.	20	20	22				
	Number of such investigations closed or resulting in enforcement action within one year of opening.	2	3	4	Of all CFTC enforcement investigations pending at the close of the fiscal year, percentage of manipulation and other abusive trading practice investigations.	TBD	TBD	TBD
	Total number of such investigations closed or resulting in enforcement action during the fiscal year.	TBD	TBD	TBD				
6. Institute enforcement cases concerning manipulation and other abusive trading practices. (See ●, pp. 152, 154, 158, 163, 165)	Number of such cases filed during the fiscal year.	1	1	1	Of all such cases filed during the fiscal year, percentage of such cases filed within one year of the opening of the relevant investigation.	TBD	TBD	TBD
	Number of such cases filed within one year of opening the related investigation.	TBD	TBD	TBD				
	Number of such cases completed during the fiscal year.	1	1	2	Of all CFTC enforcement cases pending at the close of the fiscal year, percentage of cases concerning manipulation and abusive trading practices.	TBD	TBD	TBD
	Number of such cases pending at the close of the fiscal year.	12	12	12				

1/ Many new output and outcome measures were developed during the FY 2001 budget formulation process. As such, new measurement data must be formulated. In cases where measurement data is not yet available, the acronym TBD, which stands for "to be determined," has been used in one, two, or all three fiscal year columns.

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Outcome Objective 1.1 (continued)								
Foster futures and option markets that accurately reflect the forces of supply and demand for the underlying commodity and are free of disruptive activity.								
Annual Performance Goal No price manipulation or other disruptive activities.								
Activity/Strategy	**Output Measure 1/**	**FY99**	**FY00**	**FY01**	**Outcome Measure 1/**	**FY99**	**FY00**	**FY01**
7. Sanction violators. (See ●, pp. 152, 154, 158, 163, 165)	Amount of money to be paid as disgorgement or restitution.	$0	$0	$0	Percentage of assessed sanctions collected/recovered. 2/	TBD	TBD	TBD
	Amount of civil penalties.	$17.5M	$700K	$720K				
	Number of cease and desist orders.	5	4	5				
	Number of registration sanctions.	8	6	7	Percentage of investigations resulting in sanctions.	TBD	TBD	TBD
	Number of trading prohibitions.	8	6	7				
	Amount of sanctions collected/recovered.	TBD	TBD	TBD				

1/ Many new output and outcome measures were developed during the FY 2001 budget formulation process. As such, new measurement data must be formulated. In cases where measurement data is not yet available, the acronym TBD, which stands for "to be determined," has been used in one, two, or all three fiscal year columns.

2/ The discrepancy between the amount of civil penalties imposed and the amount collected is accounted for by the following factors: 1) penalties imposed on one year may not become due and payable until the next year; 2) a penalty may be stayed by appeal; 3) some penalties call for installment payments which may span more than one year; 4) delinquencies assessed in default proceedings against respondents who are no longer in business and who cannot be located or are incarcerated; 5) penalties have been referred to the Attorney General for collection; and 6) collection still in process internally.

Outcome Objective 1.2								
Oversee markets which can be used effectively by producers, processors, financial institutions, and other firms for the purposes of price discovery and risk shifting.								
Annual Performance Goal No decrease in market use by producers, processors, financial institutions, and other firms because of loss of confidence in the price discovery and risk shifting functions of the markets.								
Activity/Strategy	**Output Measure 1/**	**FY99**	**FY00**	**FY01**	**Outcome Measure 1/**	**FY99**	**FY00**	**FY01**
1. Participate in the President's Working Group on Financial Markets to ensure coordination of information and efforts among US financial regulators. (See ●, pp. 158, 163)	Number of President's Working Group meetings held (includes Steering Committee meetings).	24	24	24	Percentage of President's Working Group meetings attended by CFTC.	100%	100%	100%
					Percentage of President's Working Group recommendations implemented.	TBD	TBD	TBD
	Number of President's Working Group meetings attended (includes Steering Committee meetings).	24	24	24	Percentage of assignments and tasks to CFTC completed.	100%	100%	100%
2. Maintain a current understanding of market functions and developments through studies and research. (See ●, pp. 151, 152, 162, 162)	Number of ongoing market research projects and studies.	14	14	14	Percentage of ongoing market research project completed.	100%	TBD	TBD
	Number of market research projects and studies completed.	TBD	TBD	TBD				
3. Provide materials and information on the functions and utility of the markets to the public through public Commission meetings, through public roundtables, advisory committee meetings, symposia, Commission input to US Department of Agriculture publications, routine reports on large trader activity, etc. (See ●, p. 159)	Number of public roundtables conducted.	1	1	1	Percentage of data requests fulfilled.	100%	TBD	TBD
	Number of Advisory Committee meetings conducted.	3	4	4				
	Number of routine large trader reports published.	8,328	8,600	9,000				
	Number of requests for data from universities and private sources.	7	9	9				
	Number of requests fulfilled.	7	TBD	TBD				
	Number of large trader reports (routine & special) provided to other US financial regulators.	28	28	28				

1/ Many new output and outcome measures were developed during the FY 2001 budget formulation process. As such, new measurement data must be formulated. In cases where measurement data is not yet available, the acronym TBD, which stands for "to be determined," has been used in one, two, or all three fiscal year columns.